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E.O. 12958: DECL: 03/16/2024
TAGS: [ECON](#) [EAGR](#) [ETRD](#) [PGOV](#) [VE](#)
SUBJECT: NOT A GOOD IDEA, BUT IT'S THE LAW: THE BRV'S LEGAL
BASIS FOR CONTINUED INTERVENTION

Classified By: Randall Hager, Agricultural AttachQ, for reasons 1.4 (b)
and (d)

¶1. (C) SUMMARY: Although recent government interventions in the food processing industry are at once real attempts to hold food prices down and maintain a social contract with the poor, leading commentators, including legal experts and representatives of American companies, estimate that the GBRV will continue acting against the private sector in the medium and long term. We believe that the GBRV will continue implementing what it sees as a philosophical and legal duty of applying complete state control to agriculture, basing its actions on the socialist "Simon Bolivar Plan." What remains to be seen is how effective these actions will be and how far they will go. Based on previous experience, we believe that output could contract, and if less money is available in the future for the imports that have kept food on the plate, a reduction in food security is possible. END SUMMARY.

Simon Says

¶2. (C) According to a presentation given at a recent Venezuelan-American Chamber of Commerce (VenAmCham) meeting by attorney and law professor Jose Haro (protect), the government's "Plan Simon Bolivar" (more fully, the "Simon Bolivar National Project--First Socialist Program: Economic and Social Development of the Nation 2007-2013") passed by the National Assembly at the end of 2007, states that private property should not exist (in fact, expropriation is called for), and all social entities should be equal. Further, competition and profits should be eliminated. With this document as his touchstone, and a perceived mandate from the February 15, 2009 referendum to eliminate term limits, President Chavez has become increasingly aggressive in implementing the Plan's goals, including actual or threatened takeovers of food processing firms, land expropriations, and increased participation in the food import sector. As the law of food security, passed by decree on July 31, 2008, puts control of food imports, prices, and production in the government's hands, officials have been more active in these areas, too.

The President Listens, and Acts

¶3. (C) According to Silio Romero (protect) of Alfonso Rivas, Venezuela's second largest food processing firm, President Chavez' motivation for action against the private sector comes in part from his need to maintain his populist image as a defender of the poorer classes and reward them for supporting his policies. Although the scale and timing of government interventions that actually take place will depend in part on the amount of money in government coffers and technical ability to manage a sector, he opined that the process will continue unabated over time. If funds are not

available for outright purchase, the government will attempt to control via other means, including direct takeover or control of necessary raw material inputs. As an example of the types of control that can be applied, we understand from other sources that Alimentos Polar has reached an agreement with the government to purchase rough rice at the controlled price, and mill it for government food stores. COMMENT: This is an excellent example of the government meeting its goal of providing food at low prices, even if it must use its perhaps most-detested private-sector company to accomplish it. END COMMENT.

14. (C) The government cannot do it all. According to Haro's presentation and with concurrence by leading VenAmCham members, the GBRV does not have sufficient technical and managerial know-how to take the reins of private industry. As such, it favors a mixed business model, and will insert itself into industries it feels are of critical importance to the cause. Interestingly, Haro mentioned that the government considers multinational firms a "necessary evil." In addition to gaining control, it provides them with additional business "training" that can be applied later to new acquisitions. Reduced government budgets and related economic headaches will limit the scope of its nationalization of the private sector. According to VenAmCham members, the government realizes this, and will concentrate on sub-sectors such as basic foods where it can have more impact. COMMENT: In addition to possible lack of money and managerial expertise, there is a "tipping point" aspect that may limit government intervention in the short term. As alluded to in the previous comment, some government officials recognize that a rapid destruction of the private sector will worsen food security, and it may pull back from the edge, opting for a

slower pace of intervention until such time as it has sufficient financial and human resources. END COMMENT.

But, To What End?

15. (C) According to Frederico Gonzalez (protect), an established commodity trader, there is little realization by President Chavez of the lack of results of nationalization, expropriations and agricultural development programs. Gonzalez relayed a recent conversation he had with several generals assigned by the President to the food sector, demonstrating to them that there have been no positive results from several high-profile initiatives to increase domestic agricultural output. Reportedly, these generals could not counter Gonzalez' arguments. COMMENT: It is telling that although the generals have valuable data showing the ineffectiveness of the GBRV's initiatives, such information is never relayed to the upper levels because they fear the consequences of delivering bad news. They and others may also be wary of the Minister of Agriculture, an avowed Socialist, who is said to be one of the President's close advisors. END COMMENT.

In Search of Low Hanging Fruit

16. (C) The GBRV will likely first focus on companies or sub-sectors that are easier to control, have higher political value, or produce foodstuffs that are considered part of the basic food package for lower income classes. Higher-value products are considered to be less at risk because they are consumed less by the lower economic classes, or their production operations are more complicated to manage. According to comments made by several American food companies represented in Venezuela, the government's reduced budget and multitude of other economic and social problems to address will likely result in less harassment of these firms for now. However, Haro opined that the ultimate goal will be to assert government control of all sectors of the economy. COMMENT: It is not clear that in the short term the GBRV will attempt to take over wheat and corn processing, as they are

critically important in the Venezuelan diet and already have strong allies in the government. We have heard of no serious moves against them. However, in conversation with Santiago Alfonso (protect) of Alfonso Rivas, he would not discount that such action could be taken. END COMMENT.

The Rewards of Membership in One's Own Club

¶7. (C) According to Haro, a short term risk to the economy is that the government "crowds out" the private sector to the benefit of public firms by denying import certifications to private sector rivals. Until recently, the government had funds to purchase food at any price on the world market and could put these products in the hands of their own companies, or companies supportive of the government. The law gives the Ministry of Commerce (MinCom) the power to regulate all products and segments of the food chain. As the MinCom will monitor international trade agreements, it can also declare that imports (which are considered to be "unfaithful" to the revolution) are "dumping," thus restricting the private sector's ability to purchase from other countries. The control of these imports gives the government the added advantage of being able to distribute raw materials to favored businesses only, using the old adage of "keeping one's enemies even closer."

Whither the Club?

¶8. (C) COMMENT: Taken as a whole, the government's actions in agriculture have achieved little and have even shrunk the productive base. Until now, the GBRV has counted with sufficient funds to aggressively purchase foods such as beef and rice on the international market to make up for shortfalls. If government interventions continue, however, we see the potential for a widening gap between food availability and domestic demand.
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